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Paul Bulcke, Chief Executive Officer, Nestlé S.A.

Introduction

Well, good morning. We wouldn't be a Swiss company if we didn't start before time, but thank you for all being back after the coffee break. And I really hope that you had an interesting, insightful and enjoyable one and a half days with us here in Switzerland, and that we could share with you some important aspects of our Nutrition, Health and Wellness agenda and the Nestlé Nutrition Journey that Luis Cantarell shared with you.

If you see our roadmap -- and we have shared with you the roadmap on many occasions already, the whole roadmap is centred around the Nutrition, Health and Wellness agenda. And what does that mean? Because -- these words, Nutrition, Health and Wellness, what do they mean? We are a company about offering tastier and healthier food and beverage choices to consumers, encouraging them to have balanced and healthy lifestyles, and ultimately, by doing so, helping them to care for themselves and for their families. That is what we're all about. And I cannot stress enough the importance of that line in that the whole organization is focused and centred on this.

But there is the other side too. Indeed, we are Nestlé, we are all about quality of life and nutrition, but the relevance of that is the value that it creates. First of all, it defines what we are; it defines our DNA from the start. It defines what we live for as a company. But it drives also the competitive advantage, the competitive advantage of differentiation, of building more arguments, being ahead of the curve, driving our R&D and, at the end, creating our brand value. That is what drives then the business value.

It also addresses the nutritional needs, be it personal or from society, that are increasingly visible in our society and asked for and also a challenge towards the company. It is how we link as a company with society, Nestlé in Society, which we have called that Creating Shared Value. And at the end of the day, it is the agenda of Nutrition that drives profitable growth and, through profitable growth, shareholder value. The value of that agenda cannot be stressed enough. And that is something that we make permanently explicit, that we embrace forcefully in the whole organization, in our R&D definition and what we're going to put our resources behind.

We find that agenda of Nutrition, Health and Wellness in the normal food and beverages that we have. We find it also in the Nutrition that we have for people with specific needs, which we have shared with you. We also have that reflected in the Nestlé Health Science initiative where we definitely believe there is great value in that potential, in that whole market opportunity that is in the making.

Luis Cantarell has shared with you this journey, a journey that started almost 150 years, ago but that we intensified and have made more specific by establishing Nestlé Nutrition; and how that has evolved and how thereof came the certain decisions that are very meaningful for the future.

We also shared with you this: in order to have a healthy and fulfilling life, it all starts with birth and even before that. Heiko Schipper shared with you the first 1,000 days and how we are embracing this. At the end of the day, it is for a company going back to its roots; we started with Infant Cereals, and we have been close to infants and babies ever since. And how we embrace this in a holistic way and how we are engaging and deepening our presence in the world through the very meaningful Wyeth acquisition. Bill Partyka shared with you where we stand, what it means, what the intrinsic values are and the drivers of the success of that company.

Then there was the example of the huge potential in the world shown through the presentations of John Cheung and James Chiu on Nestlé Nutrition China. An example of how big the potential is in markets where we were not so engaged only a few years ago. And the same thing that we see in China is repeated in Africa and in India. The potential is huge.

Then the other part that you saw is that the first 1,000 days. And we're going to embrace this. There's a lot of potential there we're going to organize this through infant formulas, Infant Cereals and baby food.

Yet at the same time, in the society, in the aging society, there is huge opportunity for adult and healthy-aging nutrition, if you want. There's link of this good lifers that he called it. So a huge potential that is on specific aspects of the Nutrition, Health and Wellness that we have focused on the last days.

Luis Cantarell shared with you, the Nestlé Health Science journey. It's now 2 years since we have started this initiative. That came out of Healthcare Nutrition that we had in Nestlé Nutrition. We have put it at arm’s length and have shared with you why. Basically, the reason why we have done that, with specific governments, is that the focus we have in food and beverage is to drive our nutritional agenda. And so it's very sharp, the alignment we have with the organization is very strong. That creates so much gravity of focus and alignment -- that whatever you want to explore that is a little bit further down the road in time has no chance of really flying. That's why we have set up that organization. And he [Luis Cantarell] reflected on the effect and the consequences of putting that with the specific governments.

We have quite a few new people coming in there. We shared with you that there are 20-plus people now in that organization and more than half of them are from the outside. Why? Because this is another ball game. This is another platform. It drives and it is under the same roof of Nutrition, Health and Wellness, but it goes further. The science is different. And the new science that allows us to go after that opportunity is different. And that's why we have set up Nestlé Health Science. So he, I hope, shared with you the journey of building, defining and driving this initiative and also has shown you the battles we have picked because that's the world. When you start there, you have an amazing amount of opportunities to go after. You have to pick your battles. And we have defined there basically 3 existing platforms and 3 news ones that are going to be driven by the Nestlé Health Science institute.

Now as I've said, in Nestlé it's all about quality of life. And what is more important in quality of life than food safety? John O'Brien shared with you that in the world of today, food safety and quality are of paramount importance. That has been always important, but it is now so much more visible and present in people's minds, also in societies and regulators. That is something that we have embraced always because the most important thing that we have to take care of is trust; trust earned with delivering on your promise. And that promise is quality and safe food.

That is something we have been managing quite intensively. We have been more explicitly building capabilities there. The world has changed. The supply chains are more complex. We are operating in all parts of the world, so we have built-in and strengthened our safeguards there, safe by design and safe by control, that combination. We have also a very strong early warning system that is very important in a globalized, interconnected world that's today. And we are measuring our compliance to these rules and we are measuring our performance. And he spoke about more than 100 million of tests that we do year over.

So that is quality of life. It's linked with the food safety. Quality of life is also linked with what we do with our environment. And that as well is a little bit of walk-through that we wanted to share with you here on this floor.

Sustainability is not an add-on for us. And you may have heard that before, but it is really embedded in how we do business. It is so closely linked with our Creating Shared Value that, we as a company, whatever we do, we have to have respect.

When I think about one word that is at the base of all our principles and values, it's respect. It's respect for other people, respect for other cultures, respect for the future. And respect for the future equals environmental sensibility and priority. So I hope we could also share a little bit with you how that is intimately linked with how we do business, be it in the supply chain, be it in our factories, be it in how we connect to society through efficient supply chains, et cetera.

So this was the meaning of setting up that programme. First of all, showing some very important aspects of our Nutrition, Health and Wellness [agenda]. Underlining the importance of that agenda and what we are as a company, what drives us, where we put our resources behind but also what creates our value and, at the end, shareholder value, and then also the respect we have for nature and environment and also for food safety and quality.

Now if you want to be successful over time, you have to perform over time. And therefore, you have to have, with the complexity we have as an organization, you have to have a very clear strategy. And I'm talking about the roadmap. I can only stress again the importance of the roadmap that we have known for 5 years and how that has helped us to steer through these troubled times, because at the end of the day, it's more or less 5 years that troubles started in our society and our world. But it is that clear view on what we want to stand for, what the reason and strategic direction of this company is and having that set up on one page aligns the whole organization. It has given us purpose and has shown us always where the journey is going to lead us.

I spoke of the need for acceleration. We are a company that goes with a certain pace, we secure our steps. In that sense, we have quite a few Swiss qualities, but in the world today, we have to accelerate. We have to put faster execution behind our strategic direction. And that is what we call then this whole sense of urgency.

And it is not a matter of only going fast, it is going faster. And then we spoke very explicitly internally about this competitive intensity and winning. It is not just doing well and being best in class in Nestlé, it is best in class in the industry and to do that in every part of the supply and the value chain. That urgency, we have been building into our organization, faster decision-making, et cetera, also fast moving to market of good and new ideas. Those are some of the keywords that we have used in the last years.

Then we spoke about this new reality and winning in the new reality. You know all the characteristics of the new reality. Actually, what the crisis did was many underlying trends of the emerging markets floating and coming up faster.

The crisis in the developed markets and the price sensitivity that came with it. Aging population, the demographics that changes with that. With all this, we are really living in a new reality.

We spoke about facts in our new reality with that roadmap, which we challenge every year. We always check our roadmap if it still stands. We need to have some priorities linked with the new reality. The first one was making choices and making tough choices sometimes. The other one was grasping opportunities. In all this turbulence of troubles and challenges we see, I always believe there's an amazing amount of opportunities. We are actually privileged to live in these times because it's full of opportunities. Just think about what science allows us now to do: We can create products and build nutritional arguments through new insights of science. There's just an amazing amount of opportunities in the developing word that are really developing now on their own terms, full of opportunities. It's a matter of seeing them and then organizing around them and getting after them.

The third was valuing what the consumer values. It should be consumer-centric. That means also taking out what he doesn't [value], which is reducing waste in the system. There, you start seeing then this whole Nestlé Continuous Excellence coming into it too. Really knowing, understanding and anticipating what the consumer really values. It's all about value: value identification and organizing around that.

Then we spoke also about this new reality where we have to engage as a company with communities and stakeholders much more intimately. And we know that. We're a high tree catching a lot of wind, we always have, but this is just not getting better, so we have to engage and we have to talk about ourselves. We have to be more transparent, and that is something, I think, we have done increasingly the last years and, to a certain extent, recognized for it. And that is heart-warming. But we see also the meaning of a company like ours to really be a part of society and to drive some parts of the discussions in society, not just limit them.

The fifth one was engage in digital. We are a company that is sometimes just watching out a little bit, making sure steps in the newer dimensions, but sometimes waiting. Digital goes so fast we don't have that luxury. We said, as a company, we want to be a leading, fast-moving consumer goods company in the digital world. We have two dimensions to that.

There's this whole dimension of social media and how we engage there. We actually have a Digital Acceleration Team here, DAT, where we brought in talent from the markets, from the Nestlé markets, to really share and to learn this digital world. As you can imagine, all the young people, people with a different language, engaging with the digital world, engaging with consumers all over the world in another way. And we have gone a long way in the two years that is in existence now. And we're rolling out -- these people go back to their markets and are engaging their markets in that dialogue, in that conversation. That's the first part.

The second part of digital is e-business. And we do have really important aspects already and businesses in e-business and I believe we can engage more because I truly believe that ecommerce and e-business in general is going to be actually taking over - from the developed world into the developing world. As you can see, the ecommerce is actually a way of bypassing the deficient infrastructures. So we see there traction coming, and you see it already happening in quite a few big markets. I believe there's an amazing upside for a company like ours to really engage there with the third parties who are interested in that. Having our own business to consumer businesses also driven more efficiently and effectively. So embracing digital was the fifth priority we want to embrace and that we have our own agenda as a global organization, digital.

And then the last one, the obvious one, is to have the best people. And the best people has more meaning now because, with the globalized world, with a world where business models are not unilaterally from the Western world, you've seen new thinking coming in. New ways of going about supply chains and all. We need diversity of talent. So it is to have good talent for absorbing growth, but it's also to have good talent to have all the insights that you need to be successful in this ever-changing world. And if you think we have more than 90 nationalities already in this building, in this headquarters, we have more than 90 nationalities. You see, our general management, with all the nationalities and cultures that we have there together. I do believe we have an advantage there, but we have still to drive it further.

These are the six priorities that we want to focus on. Now I want to go back to three of them. I spoke about making choices, grasping the opportunities and about really understanding what the consumer values, now and tomorrow. And if we want to embrace that [together] with these three priorities, these three priorities have consequences and induce action. And I have personally, on my desk, three dimensions that I really want to share with you and be more explicit. They are high on my agenda.

The first one says strengthening our portfolio, linked with portfolio management. You have heard of that before. It's a tool or a way of going about analysing and building transparency through this complexity of categories and markets. We have, actually, 1,800 cells that we analyse on shared criteria, be it the strategic fit; be it also the resource need and allocation you have behind it, or what we've done in invested capital; and also the capability that we have in this categories to win, in other words, to grow profitably. These are the base criteria that we use.

Now when you judge all that, all these cells, all these categories and markets that creates consequences in the sense that if something doesn't work there are basically two ways to go: fix it or get rid of it. We have been a company that has, to a certain extent, a little bit of luxury. I have had feedback from you saying, "Well, you were a company that allowed quite a few of these underperformers to underperform for too long." Well, that's on my agenda to make sure that is not the case anymore because I believe that if you allow that over a long time, you start to actually weaken the good businesses because they have to overcompensate for the weak businesses. And we're going to go after them.

That visibility that we now have creates shortlists. The shortlists are there and now action has to come. The time lines have to be wise, but the action will come. So the portfolio management, that we have been sharing with you over the last years, has given us the cause to implement it, has been embraced by the whole organization and has created quite a few shortlists. And we are organized around that now with the right time frames. [This is] First on my desk.

Second is resource allocation. As the end of the day, all what we do is getting results with the maximum efficiency of resource allocation. One of the big resource allocations that we have used the last years is CapEx, capital expenditures, and I think that was the right thing to do. The last three to four years, we have increased our capital expenditures quite intensively, quite heavily above levels that we normally have, the cruising levels, as we call it. And that was the right thing to do. Why? Because we saw acceleration of growth. We saw also acceleration of the emerging markets embracing new product concepts, going from the classic bouillon cube to more-sophisticated concepts. You have to build the capacities and the capabilities in these markets.

As you know, we are, by definition, a decentralized company, and food is to be produced as close as possible to where the consumers are. So we have built these capabilities in capacities. We have opened R&D centres because we found also that the emerging markets can have unexpected opportunities of driving and inspiring our whole R&D. We have built these capabilities too. In other words, we have had, during the last three to four years, quite an impressive acceleration of capital expenditures. We want now to leverage that investment, to sweat the assets, as we call it. For the future, for next year, for example, I want to cap capital expenditures, which is always a healthy thing to do sometimes, just cap it. It's amazing how creative people are to get their things done with limited resources. But I feel, after three, four years, it's time now to sweat, to leverage the investments we have done. A lot of capital, a lot of the cash went into that, and we're going to sweat it now and capping the capital expenditures for next year back into the normal cruising speed of between 4% and 5%. That's basically more than 100 basis points less than what we have, for example, foreseen this year.

That's the second one. So resource allocation efficiency, specifically capital expenditures discipline for next year and, I hope, in the years after. A right thing to have done, investments in the last years.

And then the third one is structural efficiency, or going from managing complexity to mastering complexity. We are -- by definition, by strategic decision, a complex company. We have taken the decision in the past to really be engaged in different categories, be it milk, be it coffee, be it et cetera, that's a certain complexity. We are engaged worldwide, we have operations almost in all every country of the world. We have a fundamental belief that the best structure, in Food, in our company is to be decentralized in decision-making, [this] creates some complexity. So we have intrinsically, by strategic decision-making, a certain complexity in our landscape.

Now that decentralization creates, on the other side, size. Being in different categories, being in all these markets creates size. And we have always worked to translate that size into scale, and scale into competitive advantage. Just think about R&D, for example: How many platforms we can roll out on different categories in all these markets? This is where we leverage size into scale, scales into competitive advantage.

Now we have defined different business models because we don't have one business model, and you see examples. We have local managed businesses that are linked up with the zones. We have regional managed businesses that are not in every country but managed by zone, like, for example, Purina. We have Purina North America, we have Purina Europe, we have Purina AOA. We have global managed businesses like Infant Nutrition, you saw Heiko and then Luis. We have Water, global managed businesses. What has driven the decision-making there was basically generating demand: What is more driving that category? And in certain categories like infant formulas, it's clear that's innovation and renovation. These are worldwide initiatives, and the rollouts [are worldwide], rather than, for example, soups or Nescafé, although strong worldwide brand, but we have 180 blends because coffee, in taste and profile, is so local. So we have these different models.

Then we have the strategic business units in the centre, and the role of the centre that we have defined. Then the role of the markets and how they are agglutinating the Nestlé presence, through Nestlé in the market where all businesses are coming together under one roof in spite of having different product reporting lines. We have been driving, over time, true GLOBE transparency, a major project that started ten, fifteen years ago and has linked up that complexity through the transparency and the standardization of data and processes. It has brought us an amazing amount of possibilities; driving also NCE (Nestlé Continuous Excellence) that is driving through all of the operations efficiencies and goes after the waste I was talking about. That, I mentioned, is helping us. We're driving also NCE out of operations, beyond operations, so that we start building up a lean enterprise. And that comes to my point.

Are we -- after having established all these dimensions and the global managed business, the regional managed business, GLOBE, NCE, et cetera, are we on the top of our efficiency of our performance as a structure, as a company in decision-making and the processes of decision-making? The rollouts of innovation, are they fast enough in these more globalized world? There are new means that are now technically there available. Are we still working in the most efficient way?

I believe, in an organization like ours, it will be very pretentious and blind to say that we are on the top of our form. I think what we have done is like as if we were an athlete. When an athlete is performing, he's quite fit, he's performing well but he goes to the limits of his lungs. If he wants to go faster, he has to do something with the body. I think we are on the capacity of our lungs, there is so much upside still with the body. And an organization like ours always tends -- in spite of all best efforts, in time tends to a certain disorder. And it is my personal initiative also to challenge that structure, not structurally but in the way it fluxes, the information flux as the decision-making is made, to reconfirm what I feel is good and to tweak and challenge what is not really working well. That is something we're going to do as an executive board, we're going to start thinking and processing and seeing and challenging how we are structured, what is working well and what is not, what we can do better.

There is upside there. And the biggest upside for us is to have a much more flexible, more agile, crisp organization so that our decision-making goes faster, that our responsibility definition is clearer and that our rollouts of good ideas and new products is faster, that we have processes, that we don't have millions of emails happening around and being read by people who should not read them. There's so much upside: that we have short-term meetings. There are many, little things that can be done much better by this organization. I'm not speaking about restructuring here. I'm not speaking about taking so many people out in that, that's not the idea. The idea is to absorb the growth that we projected for the future on the same structures with a more efficient working method and interrelationships between. I'm speaking about marginal getting better over time, but I do believe there is quite an upside here that is going to help us be lighter in structure, lean enterprise, and yet, at the same time, faster.

So we have the roadmap, we have six priorities but I have three things on my desk. That is actions coming from portfolio management. The second one is CapEx discipline or CapEx capping discipline. We always have disciplined CapEx and but just to cap it because I do feel we have done a major effort with the shareholder money, investing in our structures and in our capacities, now [it is] time to leverage that and sweat our assets. Capital efficiency is definitely linked to that. And then the third one is structural efficiencies. It's from managing complexity to mastering it, and there are some upside there too.

These are the three things that I wanted to share with you, and that they are very high on my agenda. These are the things we're going to work on in the next months, years. And we are very much aware of the upside there that we all are going to enjoy, I am sure of.

I didn't want to make such a long introduction, but we open for questions now, so please...

Question and Answer Session

Questions on;	**Emerging Market expectations for Q3 L'Oréal**

Patrik Schwendimann, Zürcher Kantonalbank;

I have two questions. Firstly a Dutch colleague was mentioning yesterday a slowdown in the emerging markets in quarter three. I know Nestlé already had a slowdown one year ago, but what are your expectations here for the emerging markets for Nestlé? And secondly, regarding your stake in L'Oréal, and all the options are open for you, but let's assume you would sell the stake and would do a major share buyback. What would justify such a move?

Paul Bulcke;

Well, first question, slowdown of the emerging markets. That's something we've said already a year ago. And these slowdowns are not all of a sudden, you wake up in the morning and they all slowed down. It is not that the emerging markets are all orchestrated to slow down at the same time. So that reality, we are so capular in the market that we are a very good barometer of what's happening in the world, so we were quite early to see these signs.

Now, in many markets, a slowdown, I would say, is to us, to a certain extent, healthy. I'm the first to say and have shared with you, when a China or another country grows 12%, 13%, 14%, 15% several years in a row that overheats the engine. And there are some structural dimensions that should put in.

You see that the authorities there are structuring the playing field a little bit in China. That, in my eyes, over time, is healthy. Now if you have a region, like the Middle East and certain countries, at war, that's not very healthy. And that's part of our reality. We have shared with you how -- an anchor factory in Syria that we had that was working until a few months ago, that was blown apart and looted, it's not operational anymore. That was actually a factory that was also supplying the region. Well, we are rewiring now and investing in certain other factories in other countries. But that's the emerging markets.

Then we said the developing markets, where I hope to get some more colours back, these were the words we used, in North America and Europe, but it takes a little bit longer. In North America, it's a little bit lukewarm, and Europe is longer because it was structural. So no surprise, that's reality. What is important, for a company like ours, is to drive the right innovation and renovation agenda.

To win in a marketplace is to grow faster than the market, and with the agenda that you want to drive and not be driven by. And I think that is how we measure ourselves. And so the emerging markets are a little bit slower than before. That's why also we said at the beginning we're not a company that's emerging markets, no. We have always said said, "No, we are an ‘And’ company," developed markets too. And we have really focused a lot and invested a lot in market gain, in consumer spend behind our brands, in innovation and renovation to maintain all parts of the world because, at the end of the day, the emerging markets are very important, and in a short time they're going to be 50% of the world economy, but still, only 50%. So you’d better not limit your playing field on 50%.

So we really engage overall. I would say also, you see less pricing in that growth we have. And that's good, I will say, because you have less input cost. You may remember also in April, when costs skyrocketed, you said, "Are you pricing to the highest level." We said, "No. They're going to go down one day because we see underlying lines there and try to be right there and we have quite a bit of visibility of how these trends go." And then we have less pricing need because of input cost reduction, then you have less pricing and you grow. That's normal, that's what we have.

What for me is important is RIG is taking up. And that is underlying the strength of our growth: It's quality growth, it's balanced growth, it's all over the world, with weak points. But the consistency and the spread of our growth is healthy.

In emerging markets, some are accelerating. We are putting right things in place to accelerate. Africa is still going on with its 40-plus countries, and some are accelerating, others are a little bit slower, but all in all, it's a continent that goes 5% to 7%. Latin America is challenged a little bit. Brazil, you see some of the inflation coming back, devaluation. I lived in Latin America for a long time, so I know what I'm saying there. But it's far from what it used to be, so [there are] more stabilising dimensions in these countries that allows them, in the long term, to be a very interesting place to be. So that's how I read it. We were quite early in seeing it happening, coming in. And we are organizing, and part of the capital expenditure discipline that we are speaking about is linked to that. We have our capacities now, we have to sweat them. And we're happy we did it in the right time. On the other question, L’Oréal: You just say it, all options are open. And no more comments.

Question on;	Achieving the Nestlé Model in current environment

David Hayes, Nomura;

Can you just talk about how you're going to balance the risk as you get the organization to focus on capping capital intensity, working capital, which you've talked about as well, that you're not suffocating the business in terms of seeking growth and that, as things are getting more difficult, to your previous answer, you're making it even more difficult for Nestlé to hit the mantra, the Nestlé Model?

Paul Bulcke;

The Nestlé Model, as we all came to name it, is a dimension of consistency over time. The model per se, profitable growth and capital efficiency is the first hour in business school. That's what companies should do, top line, bottom line, capital efficiency. Now the Nestlé, in the model, is we try to have consistency, and the consistency is over years. Consistency is not every quarter, every year, specifically, but the line we want to walk is 5% to 6% growth, and the margin increase that we want to have is part of that. And the margin we want to have is not because we want just more margin. We do believe that the business model and the strategic direction we have is added-value direction, so you should see that coming in through margins.

Capital efficiency was always there, but we're giving that more privilege now, being part of the decision-making process in more explicit way, not only on an aggregated way but in cell-by-cell way, and that is where portfolio management comes in. So we don't privilege one or the other. We're an ‘And’ company, again. I believe that when you stop growing, you're in trouble because then you're losing part of the relative size you have. You don't manage your own agenda, your innovation and renovation is not fruitful. And the frustration in your company, the morale of the troops is much linked with growth too.

Overdoing growth and growth for growth at the expense of the future, no way. We can grow tomorrow very nicely but on the back of the future. Now we live in a society where too much has been done already on the back of the future, and we don't want to be there as a company. We've never been. We always have given that privilege to a long-term perspective on things. We have an intensity for the short term. We will deliver but always in perspective of time. The perspective of time, over the years, is that line of 5% to 6% growth margin increased linked to our strategy, capital efficiency, and I have shared some ideas on that. So that is linked, again, with investment.

We have increased our consumer-facing investment because we feel we have more arguments built in our products. We have more innovation driving our growth. Well, then, we have to communicate. So this balanced way of going about things, not agonizing for small things on the short term but seeing the underlying trends of things. It's seeing the underlying strength of the company and its growth. It's seeing the underlying pipeline that is going to come. And again, a pipeline is not the same impact of innovation every month. Sometimes, you have more, it accelerates. Sometime, there's less. All that is actually the nicety of my job, to see that all happening and orchestrating it in a harmonious way. And harmony is the strength for the future. Harmony is not overdoing it now on the good back of the future. We're not going to do that.

Questions on;	**Return on Invested Capital** **Restructuring charges**

Warren Ackerman, Société Générale;

Well, a couple of financial questions for Wan Ling. The first one is that you've signalled that CapEx is coming down, your more active portfolio management and there are no transformational deals out there. That all sounds quite positive from a return on invested capital point of view. So I was hoping you could share some of your findings on return on invested capital. Specifically, what percentage of your invested capital currently is generating below WACC returns? And then secondly, where do you think the returns could get to on a three to five year view? And what will be the biggest drivers of that uplift hopefully in the return on the invested capital?

And then the second one is just on the restructuring charges. I noted that, in 2012, the restructuring charges were only CHF 95 million on a sales base of CHF 90 billion, that's only 10 basis points of sales and restructuring. Some of your peers are spending 100 basis points on restructuring. So the question is, how should we view that negligible restructuring spend? And what do you think is the right level of restructuring? Does it kind of go back to the 40, 50 bps level? So those are my two questions.

Wan Ling Martello, Chief Financial Officer, Nestlé S.A.;

Yes, thanks, Warren. Let me go back also to what David had said earlier about balancing the risk of suffocating. I want to reiterate what Paul said earlier: When we think about portfolio and managing our portfolio more actively, there are really two sides to the coin. It's not just walking away from businesses that are underperforming but also accelerating where we need to accelerate. So to David's question about will we be risking a sub-optimal level of investment for future growth that is categorically not the case. And that will not be the case because, like I said, there are two sides to the coin.

In terms of the review that we've done, the tool has been rolled out to 97% of our business, of our sales, and we obviously have clear visibility on how many cells are anywhere from value destroying to sort of like on the verge. It's not a detail, Paul, that we're sharing broadly with the public. But clearly, like Paul said, it's not just an automatic assumption that if a cell or a category in a geography has not been doing well, it's not an automatic assumption that we're going to put it on the block. Rather, can we fix it? How long is it going to take? And if not, maybe this is just a business that we're not the best owner for, and therefore, we will walk away from it.

In terms of the question on restructuring, I had alluded to this in the H1 call. Because of this portfolio [management], we're looking at some divestment. A lot depends on, from a timing perspective, to the extent that we sell some businesses and we have to pick some or we have to do something from a restructuring standpoint. Once the businesses go, then we have some retained costs that we have to deal with. So I guess our guidance is we will improve margin, which is our Nestlé Model, year-on-year. Obviously, restructuring cost is a part of it, but we'll manage it so that we deliver against our commitment of improving our trading operating profit margin.

Paul Bulcke;

That would be a strange target. "Well, let's have 30 basis points of restructuring costs," But you're right, there was a certain level that we have which is intrinsic to a business, but it doesn't have to be played every year, and we want to do it in the right time.. There was a time that we had a much higher restructuring cost. You may remember seven or eight years ago, we had a wave of restructuring because it comes always in blocks but linked with efficiency and resource allocation, restructuring is part of that too. What doesn't work, you fix.

Questions on;	**Review of Portfolio** **Local competition**

Eileen Khoo, Morgan Stanley;

Two questions. One, it's encouraging to hear you talk about more active portfolio management. I was wondering, what kind of scale are we talking about here? You've done your review. What percentage of businesses have you looked at that look like they're underperforming or could be in the hands of other owners?

And the second question is actually on local competition. I don't know if this is a fair assessment, but it feels like, in food particularly, the competition from local players seems to be more sophisticated and more aggressive lately. I would you say this is a fair assessment? Is this a threat for your pricing power long term? And what other steps are you taking to make sure you stay ahead?

Paul Bulcke;

The active portfolio management you speak about. First of all, the whole portfolio management is not with one objective alone, in the sense of let's see what we divest. It's part of it, but for me, the most important thing is to have the visibility of where should we fix certain things that are sailing under the radar stream for too long, without being part of the party. And that is what we are focusing on.

Divestitures, we're going to have some. We're not going to give figures on this, as you can imagine, but there are certain things that we can see are right on the strategy but we cannot enjoy the business. Well, we want to be in business, not in agony. So if something doesn't really show it, well, we have to be sharp and say, "Okay, fine, let's put our energy not in evading the question, but let's put the energy in getting a solution to the problem," and that's that. So that's going to be the shortlist I'm speaking about.

There's a shortlist also of fixing. And the shortlist of fixing is slightly longer than getting rid of. We are business people. We want to do business, not get rid of business. But there are certain things that we don't see that we can fix.

Now a very important comment on local competition: I'm the first to really acknowledge that food is local. We always say that. And that's why we are decentralized, but that means also many local players. And our competition, the classical big ones, the classical names. We have to be aware, and we are, that so much competition is coming from new places and not only local, like we had.

I've mentioned that I was living in Latin America for a long time. We have many, and we always had, the small local players teasing here or being already in the market for a long time and having that leadership. What we see now is that these players are developing very fast, going international or are big in their own country and really sizable, and they're not opportunistic. They're starting to invest in R&D, they are linked up with universities. They have very good quality, and very well managed.

So we see new dimensions of competition coming in that are very, very strong. And you have some countries that you're regional players, but you're multibillion already. So we have to be aware of that. And we should not be blinded by only the classical players and what they do. They're part of it, but we should have an increasing openness to these new competitors. And I can tell you they're fantastic. They are very strong. They have the capacity of attracting very good talent, be it in management or in R&D. And they do the right things.

That's again an advantage of having a company that is so decentralized in decision making because it is clear that the market head -- somebody who's leading our presence in a market, in a country, is very close to that. And then they're reporting back of what's happening. And they're monitoring that we can do to these people. And it's very direct. But indeed, the competitive landscape of our industry is changing and changing fast.

Questions on;	**Emerging market slow down** **Background to Alcon sale** **Debt target**

Pablo E. Zuanic, Liberum Capital;

I have three questions. One, I want to go back to the theme of emerging markets. But can you help us put in context? Okay, emerging markets are slowing down. But how bad is it really compared with '08, '09 or previous crises? And the reason I asked that, from my perspective it's a lot less worse than it is in the past. But I find that there's a reluctance or a reticence from other consumer companies to take pricing in emerging markets in the middle of a crisis, compared to other occasions. Particularly, that came across in the second quarter conference call, second quarter results, less pricing. I know you mentioned commodities, but I can go back two or three years ago, I think, in a conference call. I don't remember if it was Mr Singh or Roddy said something like "You cannot underestimate how much pricing we've taken in Latin America, and it was in the middle of a crisis." So I'm just trying to understand, how bad is it really? And if it's not so bad, why this reluctance to take pricing? That's one question.

The second one, I want to, I guess, ask the L'Oréal question a different way. Can we go back to Alcon and Novartis and Health Science? When you divested the Alcon business, and I had just started to cover this job at that time, when you divested the Alcon business, was that because there was an opportunity to buy something? Or because strategically you decided, we want to sell it and we have a good bid there? Can you give us some history or just put that in context?

And I guess the last one is maybe one for Ms Martello. Is there a debt target? I mean, we make our own little projections in terms of cash flow, but is there a debt target in terms of balance sheet efficiency that we should think of in terms of net debt-to-EBITDA or other metrics that you would use? And related to that, when you think of dividends or buybacks, is there a preference? If it's going to be an extraordinary dividend or a big share buyback program or one-off, is there any preference taking into account, of course, shareholders, tax interest?

Paul Bulcke;

Thank you for your questions. The first, on emerging markets, they're slowing down, how bad is it, how deep is it, and how structural is it versus history and the past. And then second question, pricing. As they have been growing so fast, in contrast with the developed market in crisis, the contrast was so huge and the dependence for growth of the world was so important, that it hurts now that they're slowing down much more visibly. So it goes straight into your face. I believe the growth in emerging markets is much more stable than before, if you compare with the past.

So two considerations. First, the contrast is showing that it is worse than it is because at the end of the day, they're still growing, and they're still growing nicely. We were used to more and would have liked more. There are some parts the emerging markets that are going to reaccelerate, to a certain extent. I hope not again to 15% and then slowing down again. I think growth in these markets is going to stabilize whenever we have stable political, social environment. That's one.

Second, the stability of the growth in emerging markets is also linked with the fact that emerging markets, in my eyes, are growing on their own terms. And that's much different than in the past. In the past, the emerging markets were classified as developing by the developed world. And basically, the developed definition of ‘you’re behind us’. But their whole growth was dictated and conditioned by the developed world. That has changed.

In the developing markets and emerging markets, governments are going about their own future. They have a lot of confidence and trust in themselves. They're starting to build their own structures. You'll see more stability, politically speaking, and that is really refreshing.

You see how they embrace their own natural resources and want to go for added value. You'll see how they really start to bind themselves together. And that goes hand-in-hand with two phenomena. First of all, they really see the strength of going about economic development and how that is a stabilizing factor in their own countries over time.

Secondly, it is also linked with the fact that the developed world has its own challenges. So they don't say, we depending on them. They take their own fate in their own hands. There's actually a third one also. When a small country says, I'm going to go about my future on my own terms, that's one thing. But if China says that, everybody listens and motivates the others to do it.

So the stability of growth, in my eyes and for the emerging markets, is linked with the more intrinsic internal growth, the building of middle class in these countries, middle class which is always a stabilizing factor in countries in general.

So I see definitely growth has softened after a huge acceleration that was contrasting this more, and we depended more on that. So it hurts a little bit more when it slows down. But the fact that there's still a very recommendable rate of growth, and I do believe that's going to stay because it's more stable.

The reluctance to taking prices, I mean, why should we? We're not taking prices for prices. We are not price hungry. We are creating value for consumers. And when you have -- and we had to increase some pricing. In the last years, you saw this -- the spiking of many of our raw materials. You'll remember in 2007, actually there was a major acceleration of raw material prices, and everybody says, "Can you price up to compensate for it?" Then we conducted a review saying, well, these spikes, we see an underlying line going upwards but not to that extent, and down again. And so some fluctuations, bigger, higher fluctuation in the raw material prices.

Now I see them coming back to the line we are tracing, and there's less need for increase in prices. So we don't do that. Why should be? We are creating value. We have to be competitive in prices. We have efficiency programs driving costs out. We have lower input costs. So that goes hand-in-hand. And we are living in a competitive environment where that is relevant. And so, are we afraid to take prices? I am the last to say we should not take prices. When we need to take price, you have to take price because that is a substance of your business. And if you have devaluation and you have cost inflation, we have to price.

Actually, you'll see that. In Latin America, our pricing is higher than the rest of the world. In certain countries, even double digit. Why? Because if you have an environment like that you need to price because if not, your substance is fading away dramatically

We are not taking price decisions here in the centre. We have people who totally understand the dynamics of pricing and the need for pricing in the markets, and they take the decision there based on different considerations: input costs, competitive environment, et cetera, et cetera. And that's how we work. And that's how then, by aggregation, we have then one fear. That is by aggregation. If you go into the nitty-gritty, you have lots of differentiation and -- in emerging markets. Where there is need for it, we increase prices. And if not, we don't. Then on the debt target -- no L'Oréal. Again...

Pablo E. Zuanic, Liberum Capital;

Okay. It's not really about L'Oréal, but it's the history about that one and...

Paul Bulcke;

Yes. The reason we invested in Alcon – each business is another reality. Alcon has been a success story in its own right because it had a shareholder that allowed them -- in a business that needed to be cocooned and have capital and cash. That is what we gave them.

And they have been growing and have been a success story and it has got value in the market. And we got to a point where we said is Alcon served by staying with Nestlé where Nestlé only can give some size and cash protection or R&D was really driven by them and all that? Or are they better off with somebody who may have an interest and who can drive more value out of it because they are in that same one and they can bring R&D capabilities, et cetera?

We got to a point where the crossing of the lines was really on value creation for Nestlé, the best point of crossing. That's why we sold off Alcon at that time. And I think that is clearly here and the value was there. And you know what the value was. Each company has another dynamic and has to be judged on the dynamics. I'm not going to comment again on L'Oréal because we have all options open, as you have mentioned, and I would limit my comments on that.

Wan Ling Martello;

I'll take this one.

Paul Bulcke;

The debt targets? Well, a little bit, but, yes, you take it.

Wan Ling Martello;

Yes, I'll take that. It is Pablo who asked the question, right? Pablo, call me Wan Ling. Don't call me Mrs Martello. I feel antiquated. That doesn't make me happy.

On the question of balance sheet and debt target, it's -- we closed the year last year net debt at CHF 22.2 billion and we ended at the half-year point at CHF 18.2 billion. We don't typically guide on net debt, but this what I can tell you. We as a company are very comfortable at the AA rating, and we also have guided that said this year, we do not anticipate any meaningful, significant acquisition. And so we've always said bolt-on, bolt-on defined as CHF 300 million to CHF 400 million -ish. And here, we're sitting on October 1, and we've only done one this year, which is a very small one, Pamlab. And so, with three more months to go, we don't anticipate any.

So you can -- without formally guiding, we -- you would -- you can do the math and probably likely close the year at closer to last year's level or slightly below. In terms of dividend, we've always said dividend versus share buyback. Our dividend policy is that of a sustainable policy. We pay our dividends always in Swiss francs. And in the last fifty years, the number, in absolute terms, has never gone down, and that is our commitment to our investors. And we don't look at it on a pay-out ratio. We look at it in an absolute basis. And so share buyback, we've always said it's more opportunistic to the extent that we have cash, excess cash build-up. We will always look at that. We don't have a programme as we speak today, but that's something that's not off the table and something that we will obviously consider if the opportunity comes up.

Question on;	**Product risk in Nutrition and Nestlé Health Science business**

Stuart Reeve, Black Rock;

You spent a lot of time talking yesterday about Nutrition, and it's obvious that as a food company, you have a very long duration of your brands and your products. And pharma companies have a much shorter duration of their product. They have to reinvent it much more quickly, more regularly. Are you concerned about that within Nestlé? Are you increasing the product risk within the business as you go more towards the Nutrition and Nestlé Health Science business?

Paul Bulcke;

Well, it is clear that Nestlé Health Science has another dynamics, than the classic Food and Beverage business.

First of all, in the classic Food and Beverage business, you do have different dynamics, too. You think about, Nespresso is a good example there. It took us eleven or twelve years, I think, before we got black figures. That's a long time. You have to be stubborn to get there, or convinced, one of the two.

It is clear that the time lines of flavours in certain products are easier to manage, and we have quite a lot of capabilities in that. Dolce Gusto, for example, is another thing that has a much shorter time line already it -- so we have different time lines already.

We have BabyNes, for example, that specific machine that, by my eyes, is a fantastic offering, a fantastic value. It's going to take time. Why? Mind-set, capabilities, quality of service that you want to deliver so you don't overdo it.

Then you go to Nestlé Health Science, and the time lines are much bigger. And you know that. The longer the time line, the higher the risk. That's why we also said we have to pick our battles. You just don't jump in that ocean there so we had already three. We have already a 2 billion business. We have already three platforms that we are quite close to, that we know a few things more.

We have defined three others, brain health, and you have seen them. It is clear that these time lines are much longer. But the size of the prize is huge. So the risk is, in other words, slightly higher. And that's why also a company like ours has to go for more margin, too, because it's intrinsically linked with the high risk that you're exposed to.

Now this time line *per se,* we want to have a short-term dimension into it, 2 billion business already going well and which is still relatively close to full fast-moving consumers., We have the BOOST, for example, in United States, it is still Nestlé Health Science yet at the same time, the dynamics are still quite close to what we know and how to manage it. We brought in, to accelerate the understanding, we brought in some capabilities, and that's Prometheus or Pamlab, to accelerate our knowledge and our understanding there in that new area.

We are working more with third parties also in the science base, building up, because this is so huge and vast and so deep. So in other words, we are combining. Now the size of the prize. We are talking about healthcare and how actually the society of today is going about healthcare by going for sick care and corrective therapeutic dimensions.

We know that food -- and actually, the Chinese, they say the best medicine is food, that food can induce health, dramatically. If you just would understand more how [indiscernible] interact, you don't want to tell the whole story that surely, Luis has shared with you. But that understanding, that conviction is what drives us to do that investment.

Now, if somebody can do this, I think a company like ours should be there. Why? Exactly for what you say. There's higher risk. There is more upfront payment to be done or investment to be done. Who can do that? Well, if we have the uniqueness of being able to do that and not many would like to do this, you build competitive advantages, so you see the opportunities I'm convinced about.

You just have to -- and you need two words, right, solutions and [indiscernible]. And there's a timeline on risk, so not many are going to organize this. Well, then a company like ours should do that because the opportunity is definitely going to be there. So that's a little bit of timeline we have. And actually, this whole Nestlé Health Science Institute, the setting up of the structure that Luis has been doing and all that comes from the same P&L. We are actually delivering on that upside investment because we are driving very profitable growth on all the rest. And we don't say, "Well we are going to construct and build a future. Give us a little bit of a break." We don't feel that would be fair. We have to be able to do both wisely, and actually, that goes back to fundamental conviction I have. A company at core should be able to do innovation permanently. I call it the rolling innovation cycle.

We are doing this because somebody else did something ten years ago, five years ago in innovation, paying or investing in something that gives now the cash, so that we can do the same for the next generation. That is what we're doing. Because if not, you build anaemia into your organization, and you are still hanging in the air but you're pre-stall. And we don't want to be there.

A big platform in the making, which is Nestlé Health Science. It has little bit of a higher risk and longer timeframes and more investment, but we have to be able to do it. On the upside, it's just too inviting.

Question on;	**North America**

Jon Cox, Kepler Cheuvreux;

I was wondering on the North American market, Paul. I know you were sort of regional head there. Just it looks a lot more challenging and maybe it hasn't come back as much as people had anticipated. I'm just wondering has there been any sort of structural change, do you think, in the North American market? And then on top of that, what about your own business, and how to reinvigorate that business somewhat?

Paul Bulcke;

You're totally right. It is challenging. It's slightly more challenging than we thought also because of the external environment that is re-bouncing slower than we thought. We always said North America has the characteristic of going to crisis faster, but bouncing back faster. while they went in fast they are and not bouncing back as fast, still faster than Europe, but still less than we thought. So in other words, it doesn't come back as fast as we thought also because of some of the problems of our making maybe.

First of all, you have two differences in North America. You have fantastic businesses there like Purina. Waters has done well although challenged there also because of pricing in the last quarters.

We have good performing businesses, Coffee, for example. Beverages, in general, are going very well. Coffee-Mate is going very, very well, strong growth of the whole category induced by the innovation that Coffee-Mate is bringing. And we are building stronger market shares in spite of many other players trying to get a bit of it.

And so we have many underlying things. Now, we have actually also in frozen, if you think about Stouffer's. Stouffer's is doing well. Now, Lean Cuisine is suffering. In Lean Cuisine, these are business categories that are changing or inducing new innovation that drives the business a little bit slow always. But for example, again, Chef America with Hot Pockets is doing well. Although that was something that we had to re-engineer a few years ago.

So you have many underlying things that are going well. Others that I feel we have to inspire or restructure or -- not restructure, but having better innovation. And certain parts of the business in the United States had a little bit of a weakness, I would say, of what I just mentioned, this rolling innovation. And when you go for the short term in certain categories to try to save the day, you build in anaemia in certain categories. And that is something we are now reverting with some upfront investment. We have restructured already quite a part of the business to free up resources to put behind the brands, to be able to finance innovation because we had quite a lot of innovation that was not really supported in the right way and long enough, with consumer facing marketing spend. We have a change of leadership. And the change of leadership is on new angles that are, in my eyes, is going to drive better value in North America, so I'm very positive for North America, for Nestlé and for North America, in general, for the years to come.

Questions on;	**Structural efficiency improvements** **Sustainable reductions in overhead costs**

Jeremy Fialko, Redburn;

Can you talk a little bit more about the structural efficiency improvements that you spoke about earlier? So -- and it's obviously something, which all companies is fast do -- fast decision making, more flexible structures, et cetera, et cetera. So can you perhaps talk about what's different about this time that you're looking at it? Are there any examples of some specific actions that you have taken so far? And I guess as a result of this, do you think that you can achieve a sustainable year-on-year reductions in your overhead costs as a percentage of sales? Thanks.

Paul Bulcke;

Yes, it's always difficult to be very specific when you speak structure and then you see the whole structure. What are we going to do there and et cetera?

First of all, what we're going to do is we have organizational principles that we have defined a few years ago, like what is a market head's role? Our decentralization first, as a first chance, what is the role of a market head? And a market head is local manage business. What is the role of a regional market head? Who is managing the region? What is the role of a global managed business? And how is that global managed business intertwined or linked up with the local dimensions. For example, HR issues or regulatory issues. We have defined all of these things a few years ago, and we have defined the role of the centre and the strategic business units. What is the authority of the global business strategy? When we have something like a Nescafé brand or a brand essence, as we used to call it, how strong is that authority? If we're having a strategic option that has been discussed in general management, how strongly is that imposing into the markets? How is the decision-making process, how is the rollout of new innovation? How is the link between R&D and strategic thinking, the strategic business units and the markets? How is that triangle going and zones? All these things have been defined at the time and has been actually never something like, "Oops, we invent something new.' It is evolutionary always. We always tune these things and adjust and adapt. We have defined how we are interlinked, and GLOBE has been a tremendous enabler to link us up in a much more transparent, faster way.

All these things have, we have introduced NCE (Nestlé Continuous Excellence). And NCE, we have mentioned that is very strong in operations in the physical dimensions of our value chain. We are driving and rolling it out in the softer parts of our organization, like HR, like Finance.

What does it mean? How fast is it going? We know it's much harder to drive an NCE discipline through the softer part of the organization, but yet we have to do it. How are we linked up with the fact that where we have millions of emails a day to be read by people. I feel this is totally unnecessary. How about not having an email dimension of our company and having platforms of communication, like the new tools allow? Some companies have decided no emails anymore.

How about the fact of having so much travel and seminars that are normally part of our landscape? We have, for example, in this centre; we have 120, 130 times people coming from the markets all over the world here for training. That's good investment. And general management goes there to -- that's the leadership of the future, so we invest in people. But we have 300- 350 meetings, here, full of people. And do we need that? Do we need these things - these are the things we're talking about, you see.

I am fighting for one pagers. And it's proof that I have no authority in this company because you don't get there. Many are doing it. But still too many long memos, long things. We have too many no sayers in an organization like ours. It's easier to say no, but who is responsible? Who thinks all these dimensions -- you think about it.

I don't say we're going to reschedule and rebuild our building. We're just going to challenge the fluxes we have. The fluxes of information, the fluxes of how we decide, what we have in global business strategies. That's the SBU, who is actually, the knowledge platform of a product category in the world. In the Nestlé world and in the world, who through knowledge, understanding of all the merits and the dynamics of that category in the world, is actually with the markets and defining the global business strategy.

We call it GBS. That's the GBS for, for example, Nescafé. That is saying Nestlé where are we -- what we do want to do in the next so many years and with the nuances of different dynamics, of different markets and all that, that's a GBS. Then you have some conclusions.

We decide on that. That’s general management involved saying “Okay. What is the follow-up on decisions that are inherent to that approval?” Is that the discipline there? How is that translated into the market business strategies?

Every year, a market comes and says, in the midterm, I think Nestlé should do ABC in this market and put the resource more here and do that, the priorities. Is there a link between that matrix that is sufficient, fast and disciplined enough?

And I know that we have been working on this, and I know there's lots of efficiency already. I see upside, I see upside.

What is the authority of the good idea in this company? Good example, Dolce Gusto, used and abused already as an example, but allow me to use it again. Dolce Gusto is a concept that ten - fifteen years ago would not have flown like it has flown lately. It is a 1 billion business now. It has rolled out of the whole Europe. In four or five years, we have the done every country in Europe, basically. Well, that's the authority of a good idea. How is that going? We have that example. We have some more examples, but I would like to have more.

And although we are very decentralized in decision making, it should be consumer-relevant decision making and consumer-relevant differentiation in the market, not ego-defined differentiation.

And we are a company, and we are people, and we have ego-haps. We have to see and analyse that a little bit more. And I believe that in globalized world with all the differentiation needs, because food is local, global ideas should walk faster and broader.

And that's an upside we have. That's where our size starts to be translated in scale again. That's when we're going to have R&D really motivated to do things because what comes out of it is rolled out broader and faster.

We're going to have competitive advantage because if we launched in a new concept in one market, and it takes us five years to get to the other market, competition is before us.

So that is what we say the structural efficiency is decision-making rollouts, fluxes of information, paper, meetings, travel, and all these things. And maybe, we then say that, that structure that we defined five or six years ago, has some tweaks to be done on it because it doesn't work really. That relationship doesn't work or is troubled. That's what we're going to do. How are we going to do that? We're not going to bring in a whole bunch of very smart people. We're going to put somebody on this that has a good mind or knows his company in and out, and he's going to drive this with me. I am responsible for this. He's going to help me to be responsible, together with the executive board, and they're going to have somebody who helps to drive that project. To really go and ask the right questions.

And he's going to do that together with the structures we have. If you need some transparency, he goes to Wan Ling. And he's going to have the resources there to get that transparency, and we have built that in.

So that's the way we're going to do it. So it's going to be something that is going to, I'm sure, creep in. It's going to go hand-in-hand with NCE beyond operations too, because at the end of the day, Nestlé Continuous Excellence is going to give us some discipline and tool work to drive then all what we see and insight that we get there to drive that through the organization in a more organized way.

What is the upside of it? I'm the first to say whatever organization; you can always leverage it up by quite a percentage. I think we can grow -- over the next years; we should be able to grow over the same structure, over the next years. How much is that? I don't know. But there's 30%, 10%, more efficiency out of this building. If you shorten the meetings by half, it's 50% or it's 100%.

But think about it, I don't want to go into the nitty-gritty now, but think about meetings because that's how we have to show the efficiency is all over the place. It's all here potentially. We have meetings where we have ten, fifteen, twenty people. We have the tendency of many people -- everybody involved, it's happy-go-lucky. If you think around the table, half would be, shouldn't be there. Does somebody who was leading that meeting, say half of the people sitting here should not be here, no, we don't. We are a very sociable, likable company

And sometimes, people sit in there because the person was relevant to the topic of the meeting, well, he's the boss of that person and then the other side you have somebody in his level, you know how people are.

And the meeting starts ten minutes late, ten, fifteen minutes, multiply it by ten. It's quite a lot of time.

And is somebody really leading a meeting saying, "The purpose of this meeting is a, b, c," and whatever is discussed that is fading away from it, not allowed. Do we do that?

In other words, if you think about it, half people out, half the time to do the meeting, it's already 35% of the time. You understand. So you think about it. The upside in our organization, the complexity we have is tremendous, it's tremendous.

And I know a social organization like Nestlé cannot work with that acuteness of 25% only. People are people, sociable; they talk about football, something else for a few minutes. But still, I do believe there's a high upside. I still read too much paper. I still read too long emails and you what I mean.

Question on;	**Engaging with the consumer**

Tracey Grace, Newton Investment Management;

You mentioned that one of your areas of focus is to be more intimately involved with the consumer and stakeholders. And in some categories, such as baby food, you're restricted in getting more intimately involved from a marketing perspective. In some other areas, say, adding micronutrients into your PPP foods, it might distract from the brand messaging in traditional media. So I'm just curious to hear a bit more detail on how you are working on ways to more intimately engage with the consumer and make sure that they're valuing everything that you're putting into the business the way you would hope they would.

Paul Bulcke;

Let us make a distinction. First of all, when I say value with the consumer values and -- that's consumer. And in the roadmap you see consumer engagement as one of the operational pillars, and that's why digital and social media is part of that, too.

That's talking about our products, talking about our company, how we go about business because the consumer is not only asking benefits of the product, who is behind that, that's the engagement, deep engagement with consumer.

It is going from unilateral communication to conversation -- digital comes in there, the consumer lines, the telephone lines, all that is there. That's consumer.

But I said is we, as a company, as one of the priorities, are to engage deeper with communities and stakeholders, which is the other part, which is being being a citizen in the society. And you know society, specifically in certain parts of the developed world and some parts in the developing world, many stakeholders are questioning and challenging on many areas, issues like sustainability, what you do about certain ingredients you use or the supply chain in cocoa and the farming of cocoa or is it with infant formulas or is it -- . And we, as a company we have to accept the dialogue much more practically.

And we had many good stories to tell at the time. We didn't engage though because we are a little bit like a company that ,I always show this, we have so much reality[made a wide gesture with hands] and only talk like this [made a narrow gesture with hands]. Yes. Some other companies, they have so much reality [narrow gesture] and talk like that [wide gesture].

We're never going to talk more than reality, but we should talk slightly more than we are doing because we have so many things to connect with, to talk about. And there's so much effort being developed in many areas that are of interest to society. They should know about that because they're asking it. They're asking the questions.

And we said, how do we do that? And we said, at the end of the day, all that we do is so intimately linked to what we have been doing ever since. We are completely convinced that a company can only be successful when it connects positively with society. We call it Creating Shared Value, which is the economic activity of every company, of every economic element in society should create value for society, too.

And you think about milk districts, you think about putting a factory in a god-forgotten place and having hygiene, safety rules, and education. It radiates, added value of society. Why? Because we are a company that thinks long term, long term linked with respect. And so when we engage in a society, we don't hit and run. We commit. We are part of that society. We're locally involved, and we stay there for the long term.

Hence, and many times, I have gone to countries, and it's 100 years of Nestlé in A, country B, it's country C. That is how we go about it. That is what I meant by intimately connecting with the communities and other stakeholders and engage in discussion.

And we were a little bit reluctant to do that because we felt only criticism coming. And it is clear that with many stakeholders, they only see society from a certain angle. And they want to reinforce that angle and say, "That's important. Don't forget that angle, too." It is clear that when you have an irrational angle, it's always harder to engage because we are living more a 360 degree world as a company and have engagement, discussions with people who are 50 degrees only. But that's how it goes.

We have been doing that much more intensively. We have been -- the Creating Shared Value concept is something that we have been putting out there more explicitly. We have been documenting that. We have held forums that we share with society, be it academic, be it societal, be it NGOs, be it local authorities. Just to show and to communicate how we go about our role in society more proactively.

And that goes hand-in-hand with consumers. Because at the end of the day, consumer is asking, what is the company? So we enforce that from both sides.

And that's why we also shared with you a little bit sustainability. You see social responsibility and Creating Shared Value is not a product that we want to sell. Sometimes, the society pushes you in a corner of 'That's like a product you sell'. It's like something you do on top of what you do. And that's not true. That's not how we see these things, like environment, like stakeholders' engagement, like being part of local communities.

It should be intrinsically linked with our activities, and that's why you saw also the sustainability for us. It's linked with how we operate, how we are, how we define. It's sustainable by design. It's sustainable by conviction. It's a sustainable by investment. So -- and it should be linked through the whole value chain. And we don't want to have just a showcase stuff. It should be everywhere in our organization.

Question on;	**Competitive advantage of supplier partnerships in current environment**

David Hayes, Nomura;

Over the last couple of days, you kind of picked up again that you seem to have this competitive advantage from vertical integration and partnerships with suppliers. But would you say it's true that that's an advantage during inflationary periods of time in terms of raw materials, which you talked about, what you see in the last few years? And does it become a disadvantage in terms of seeing the offset when you see a deflationary period like we're seeing more now?

Paul Bulcke;

But what is your question? Is it a statement or a question?

David Hayes, Nomura;

No, no, it's a question. So the question being do you feel the vertical integration that you've got with your partnerships is an advantage during inflationary periods, and you have a competitive advantage which you've enjoyed effectively, and that is less of an advantage because you don't get the relief on the -- on deflationary side? And I guess to extend that, do you see that as an advantage competitively on the longer term because you see on the longer-term inflationary pressures for raw materials costs?

Paul Bulcke;

I'm sorry, but your question as being integrated means we are owning more part of the value chain?

David Hayes, Nomura;

Exactly. You're vertically integrated. So it feels like you are more vertically integrated with suppliers, with the sustainability we've looked at and the other comments we've had through the last couple of days. Is that a competitive advantage, significant competitive advantage? And hasn't been so more over the last 3 years in inflationary times? Is it less so now?

Paul Bulcke;

We are indeed very much integrated and through relationships, but we don't own a cow. And if we own a cow, and it's more for experimental things to see how a milk district works and all that. We don't have coffee trees giving us coffee.

But we're very much integrated. Even more so that we say the coffee trees quality is going down. They are not taken care of to the extent that they should because of prices were down many years ago and et cetera.

So we do have oversight, not oversight, insight of the whole value chain and we have a little bit of an insight in the cost structures and the evolutions of prices. We are engaged, yes, indeed, with 700,000 farmers directly, many in the milk districts but also in other areas. And that gives you insight. You have lots of antennas.

We have 1,200, I think, agronomists on our payroll, working with these farmers and working with others. We have relationships with huge companies that do an important job on the upstream of raw agricultural materials and working in partnership also in R&D and development with these people. Yet, at the same time, downstream we have customers and working more intimately with them.

But you speak more upstream, do you have a cost advantage having that? Well, insight is a cost advantage, insight, not ownership per se. And this insight and the scale of that insight and the global-ness of that insight that we want to leverage. That's how we see lines of cost increases over time, how we manage around this, how we can then hedge meaningfully and operationally that serves our operation.

Why? Because it creates stability of pricing and costing, because you cannot handle a business like Nestlé if you allow all the volatility of some raw materials just being played in every market. We do that more sensibly. All these things are advantages.

So I would say it's insight advantage, definitely, and it anticipates. You induce more stability in your management of your reality through that insight, definitely. And also, it secures. With the size we have, it secures also raw materials directly or tangibly.

If we have been-- like we have been communicating, distributing small plantlets of good coffee trees that have higher yields and less need for water and more disease resistant, well, that's direct impact in having enough supply.

And again, it is totally, I would say, a social responsible, because at the end of the day, you give something for your own interest again, at the same time, you create value for society because you create better quality, better yields on the same square mile.

So these are the things that helps us. It is clear that these relationships are, in many, many instances, not even binding. But we have seen over and over again, and I speak from first hand, that many relationships are not only on financial terms. They are really linked on being part of a society or a community for the longer term and to being trustworthy. So -- and trust, at the end of the day, is the most precious thing we have, and that's what we care for. And that is linked to suppliers, customers, consumers, society and global.

Well, I think one more question or no? He says no, no. Okay, thank you. Thank you very much for good questions. Thank you.

Conclusion

Just two words more. I only can stress, we have organized this program around Nutrition and Nutrition, Health and Wellness and what it means actually.

I can only stress the value potential of that agenda is tremendous, and that's why we have organized these two days with you here around this. And I can only stress also, remember the three things I have on my desk. I'm really going to go after them, and I do see also quite a lot of a potential there, too. So I am looking forward to be communicating that to you, too, later on. So thank you very much for your presence to and interest in our company.

END OF TRANSCRIPT